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COOPERATIVE



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ADJUSTING FARMER
SUPPLY COOPERATIVES
TO MEMBER NEEDS
IN THE
1970'S

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Farmer Cooperative Service,
U.S. Department of Agriculture

FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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ADJUSTING FARM SUPPLY COOPERATIVES TO MEMBER NEEDS IN THE 1970's

by Martin A. ²Abrahamsen Deputy Administrator
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The changing needs of members for farm supplies in the 1970's will call for far-reaching adjustments in the operations of their cooperatives.

First, I would like to consider what the cooperative member of the next decade may be like. Then, I would like to examine how his cooperative can most effectively adjust its operations to meet his needs during this period. Finally, I want to discuss some problem areas for cooperatives in meeting members' needs, that I see ahead.

The Cooperative Member In The 1970's

It is important to consider what the cooperative member will be like in another decade, because then as now, the member will be the cooperative.

In another 10 years he will be better educated, he will have more technical information, and, in general, he will be

ADAPTED FROM A TALK, THE NEED FOR FARM SUPPLY COOPERATIVES, GIVEN AT THE SIXTH ANNUAL WORKSHOP FOR FARMER COOPERATIVES AT SOUTHERN ILLINOIS UNIVERSITY, CARBONDALE, ILLINOIS, JULY 7 1964.

a more sophisticated person than he is today. He will show increasing capacity in appraising and dealing with the broad range of economic and social forces that will concern his farm operations.

I also look for him to be a more responsive member of society--a person who, whether he likes it or not, realizes that he cannot afford to ignore the march of world events. These events will influence him and he, in turn, will influence them.

Tomorrow's cooperative member also will have a better understanding of the wide range of economic forces--local, national, and international--that bear on the dollars and cents he nets from his farm operations. These forces will be intermeshed and interrelated to an increasing degree. The success of the average farmer will be determined not only by what happens in Carbondale, Springfield, and Washington, but also by events in Moscow, Rio de Janeiro, New Delhi, and Peking.

My work with cooperatives has recently taken me to Brazil and India. In both countries I was especially impressed by two things: (1) How closely events and activities in the United States are observed and commented upon; and (2) the important role cooperatives can play in building a stronger economic and social structure.

The days of so-called splendid isolation are over. The most successful farmers will be those who know what is happening--not only locally and nationally, but internationally; those who can accurately interpret the meanings of these developments in terms of their day-to-day operations.

Another aspect of this increasing maturity on the part of the cooperative member will be a more realistic understanding of the economy and of the role of Government. Tremendous technical developments have revolutionized agricultural operations since I was a farm boy. As great as these changes have been, have we kept our thinking in tune with the needs of the times in dealing with them?

In today's interdependent economy of large but few firms we cannot assume that competition will achieve the same results it did when firms were small and numerous. Now, more than ever before, farmers will need to look to their own cooperatives to give them strength and protection. To put



it another way, economic tools of 100 years ago are as ill suited to dealing with the economic and social needs of today as are the technical and biological knowledge of that time to building and maintaining the efficient agricultural plant we now have.

Agricultural statesmanship is an area in which farm leaders can demonstrate increasing maturity. For example, how much emphasis are they willing to give to building an American educational system that is second to none? Are they willing to consider, for instance, not only the costs of building such an educational system but also the very real costs of not building such a system during the next decade? Do we realize the extent of such costs in terms of lower living standards, wasted human resources, and low productivity? I think, too, that we should ask ourselves if similar costs are involved when it comes to building or not building cooperatives.

In this same connection, I think we should take a hard look to see if we are taking the necessary steps to deal with today's problems of poverty. Do we know the costs of developing an effective program to lessen poverty and are we aware of the costs of doing nothing?

The problem of developing wholesome recreation--a growing need of both the underprivileged and affluent, both rural and urban--also is coming into focus and will receive increasing attention in the decade ahead.

If my appraisal so far is correct, the cooperative member in the decade ahead will be a better businessman, as well as a more comprehending citizen.

If farmer members are alert to the challenge of change, they may well have a greater need for cooperatives in the decade ahead.

In the future, more than in the past, however, the cooperative will have a clear-cut set of objectives if it is to serve its members effectively. It will know where it wants to go and will think through how it proposes to get there.

Moreover, I would expect that the leaders of such cooperatives will shun simple answers to many of the problems that now confront them. They will realize, for instance, that in

looking at various alternatives, all is not simply black or white when it comes to charting possible courses of action. A realistic appraisal would suggest that moving in one direction or another may be just a little better or just a little worse than going in the opposite direction or deciding on no change in direction.

I think, too, that cooperative leaders can be expected to have reservations on the oversimplified view that adopting one form or another of organizational structure is a basic answer to the many and varied problems confronting them. For example, the solution is not necessarily in shifting toward centralized operations or, conversely, toward the federated type of cooperative operations, nor is it necessarily in shifting from one-man-one-vote basis of control to voting on the basis of volume.

We must never forget that the best type of organization structure reflects the job to be done, the individuals who will do it, and resources to work with. There is no simple answer.

The understanding cooperative member will realize, too, that patronage refunds should not be the final appraisal of cooperative benefits and performance. He will look beyond patronage refunds and ask such disconcerting questions as: "How do the services I get from my organization measure up with those provided by its competitors?" "How do my cooperative's prices compare with those of comparable businesses down the street?"

He will also look at the intangible contributions his cooperative makes. If he is realistic, he will think of what the situation would be in his area if his cooperative were no longer there to provide the supplies and services.

The understanding cooperative member also realizes that cooperatives are people, and that people are complex and often do not act in rational ways. If this were not so, would they be willing to put up with some of the present competition between cooperatives--competition fought with funds that could be savings belonging to members and that under a more rational approach would be returned to those members whose patronage makes such savings possible?



Cooperative Adjustments To Member Needs

The alert cooperative is the one that anticipates and adjusts operations to the problems ahead. It is the cooperative that looks at operating statements, balance sheets, and budgets, not only to determine where it is today, but also to chart and plan a course for the decade ahead.

I have discussed with members of the Farm Supplies Branch in Farmer Cooperative Service the anticipated needs of cooperative members for farm supplies and services in the decade ahead and how they will be provided. As we see it, anticipated changes, among others, will include:

Larger And Fewer Farms

We have already considered likely changes in the cooperative member. What about changes in the farm plant he will operate? We know that the number of farms is declining and that their size is increasing.

In Illinois, for example, the number of farms declined from 176,000 to 144,000 from 1954 to 1964, and the size of these farms increased from 173 acres to 210 acres. If we project these figures, we could anticipate between 100,000 to 120,000 farms in Illinois, averaging approximately 250 to 275 acres, by the mid-1970's.

As farms get larger, capital requirements will increase and management will need more competence to effectively use such resources as land, capital, and labor.

The Need For Broader Services

It does not require too much imagination to conclude that farmers will want more consistent services, greater management assistance, and increased technical advice. They will especially want those services that will save them time and

labor and provide a complete package of assistance as to the supplies and services required in production operations.

The larger farm operator usually requires more management consulting services from his supplier. Some cooperatives now furnish bookkeeping services. Many are being called upon by members to provide substantiating data for members' tax returns or to provide a tax reporting service.

Often the farmer requires that building materials, such as shingles and paint, be applied by the dealer. In some instances, farmers call for the complete construction of a farm building. Fertilizer application, fence building, farm machinery use, tire changing and truck repair, and spray application are other examples of custom services that are in growing demand.

More and more cooperatives, and other farm supply dealers, are being called upon to supply credit to finance crop production. General financing is being increasingly supplemented by special contract financing.

Changing Methods Of Physically Handling Commodities

Feed and fertilizer are now handled more and more in bulk. Dry bulk ingredients are being supplanted by liquid fertilizers. While in some instances liquid is applied by the farmer, there is a greater tendency for delivery and application to be completely handled by the dealer. As you know, now much fertilizer is blended on a farm or field prescription basis.

Cooperatives also have an interest in important changes taking place in the physical distribution of products. These include changes in transportation methods, materials handling, warehousing, inventory control, and packaging. There is every indication that these changes will be increasingly important in the years ahead and that they will have great potential for cost reduction in cooperatives by avoiding the fragmentation of the physical distribution process.



Greater Suburbanization

While suburbanization is not likely to be as far-reaching in Illinois as in many of the eastern States, you, too, will be confronted with an increasing trend in this direction in some areas. This will raise problems in maintaining adequate cooperative supplies and services for some farmers adjacent to your larger cities.

Moreover, the growing pressure by urban people will contribute to a demand for new and additional services, particularly in rural recreation. In some instances, farmers will want to take a careful look at their operations to determine whether or not they or their cooperatives can provide these services.

And when it comes to production supplies, what are these services likely to be? Urban users demand surprising amounts of such items as fuel oil, lime and fertilizer, and garden supplies. Cooperatives will have to determine whether or not such business is worth going after. The answer is not always easy.

Increased suburbanization, coupled with recognition of increasing community responsibility and possibilities for higher margins results, in many instances, in increased business with suburban patrons. The foregoing changes also result in increased sales costs and greater expense in record-keeping for farm supply cooperatives. Basic questions as to maintaining cooperative character may also arise.

More Marketing Activity

Not all changes in the farm supply field are restricted to supplying services. Many farm supply businesses also market some farm products for members. In the future the farmer will be more inclined to expect the same agency that provides supplies and services to market his products.

Differences In Merchandising Practices

Farm supply service centers to a greater extent are located away from congested, downtown areas in villages or

cities. They are more likely to be found near a superhighway or a circumferential road. There is a tendency toward larger and fewer centers located farther from the farmer.

Similarly, the increased demand by farmers for delivery and specialized services results in a heavier investment by the farm supply cooperative in delivery equipment.

Problem Areas

If cooperatives are to anticipate their member needs in the 1970's most effectively, they will need to consider a number of problem areas--areas that will require their best attention in the years ahead. Let's examine some that appear especially significant.

Determining Best Methods Of Providing Supplies And Services

Existing cooperatives will provide both additional and new services in most instances. Some will need to add branches. Others will need to merge to achieve volume and to realize better use of resources--physical, financial, and human.

I look for more attention to providing the integrated services required for specific farm enterprises. Either through one cooperative or through closely coordinated cooperative operations, complete services will be provided that include management assistance, a growing list of production supplies and services, financing, transportation, and marketing and processing or bargaining.

Keeping Operations Equitable

Supply cooperatives in the future will need to direct more attention to maintaining operations on an equitable basis.

A number of important problems come to the forefront here. For example: (1) What price policy should prevail for

small, medium, and large farmers; (2) should there be price differentials for cash sales and what should be the terms for accommodation credit, production credit, and term financing; and (3) what should be the delivered, cardoor, and retail prices for farm supplies?

Another aspect of equitable operations is development of realistic charges for services that may range from partial to complete. Finally, departmentalization of operations, particularly as they relate to patronage refund policy, will also need close attention to make certain that operations are kept on an equitable basis.

Greater Coordination Of Cooperative Efforts

The years ahead will demand increased cooperation between cooperatives. In many instances such cooperation will call for joining together in regional and national systems if farmer members are to be served most effectively.

The increased competition that cooperatives are encountering in the marketplace will necessitate even greater emphasis on merger.

It also may call for developing new or modified types of organization structures to best adjust operations to the changes anticipated in the economy in which cooperatives will be operating.

Increased Use Of Credit

The farmer in the 1970's will make a marked shift to increasing his use of various forms of capital rather than land and labor. This will call for increased use of fertilizer, petroleum products, machinery, buildings and equipment, and similar items. It will mean increasing requirements for off-farm procurement of production supplies.

Developing The Most Effective Distribution System

One of the most effective ways to achieve greater efficiencies in farm supply operations of cooperatives will be to improve distribution practices.

This will involve careful consideration of such possibilities as: (1) Carload shipments that bypass wholesale and, in some instances, retail operations; (2) consolidating retail branches and, in some areas, establishing new ones; and (3) coordinating transportation services to reduce warehousing and shipping costs.



Performing Research And Long-Range Planning

Planning starts with a determination of long-range association objectives. This involves anticipating needed services, essential facilities, and finances required.

To help take operations out of the guess stage and to provide facts relating to products and to economic aspects of operations, a soundly developed research program should be an important activity of all regional cooperatives as they plan for the 1970's.

Improving Member And Public Communications

Education involves the continuous flow of information to and from the cooperative to its various publics. The farm supply cooperative needs to know what supplies and services its members need and want and what image it has created in its business community.

Moreover, the cooperative needs to inform members about the effectiveness of its performance and the general public

about its contributions to community development and growth. Another aspect of the educational and informational process relates to how well the cooperative selects, trains, and develops its employees, and how conscientious members are about electing competent directors.

Closely related is the problem of member understanding. How many farmers really understand how important a part their cooperative is of their farm business? When farm members think of the cooperative as separate and apart from their operations, we cannot be too critical if non-farm people do likewise.

I would hope that when the 1970's arrive there will be common understanding that farmer cooperatives are the economic business tools of farm people. I also would hope that they would take as much interest in the efficiency of their cooperatives as in the efficiency of their on-the-farm operations.

To Sum Up

In the years ahead the cooperative member will need to be better informed if he is to use his cooperative to the best advantage.

He will have to interpret a wide range of economic and social developments--developments that likely will be local, national, and international in scope. They will relate to the total economy as well as the agricultural economy. They will concern the implications of changes growing out of research. Finally, they will call for new and more effective means of communication.

This means that farmers will need to gear their cooperatives to provide a broader range of production supplies and services. More attention will be directed to methods of handling commodities and to the opportunities for more integrated services and operations that are farmer controlled.



These developments present cooperatives with a number of challenges that they must deal with realistically and effectively if they are to anticipate the needs of their members. They will, for instance, need to determine how best to provide supplies and services, and how to develop research and long-time planning activities that will help provide management with answers to pressing problems.

They will need to develop an equitable operation that will enable a cooperative to operate in accordance with both sound business and sound cooperative principles.

These problems are not simple. Their solution will call for new vistas of understanding on the part of cooperative members and greater ability on the part of management--both directors and paid employees.

However, if careful consideration is given to the changes that appear on the horizon, I believe the challenge of meeting the anticipated needs of the farmers for production supplies in the 1970's can provide cooperatives with new opportunities to extend their services to agriculture. I believe that the farmers can look forward to developing cooperatives to meet changing situations of the 1970's with anticipation and confidence.

Other Publications Available

Using Your Farm Supply Co-op. Educational Circular 6.
J. Warren Mather and Martin A. Abrahamsen.

Regional Cooperatives Handling Under \$10 Million of
Supplies, 1960-61. General Report 115. J. Warren
Mather and Anne L. Gessner.

Lawn and Garden Services in Eastern Farmer Co-ops.
General Report 107. John M. Bailey.

Exploring Communication Processes in a Farmer Co-
operative -- A Case Study. General Report 97.
James H. Copp and Irwin W. Rust.

How Cooperatives Use Credit Agencies To Meet Patrons'
Needs. General Report 52. John M. Bailey, Arthur H.
Pursell, and Russell C. Engberg.

Planned Public Relations -- In Modern Cooperative
Business. Information 10. Martin A. Abrahamsen.

Farmer Cooperatives and the Community. Information 8.
John H. Heckman.

Purchasing Cooperatives - An Essential Tool for the
Modern Farmer. Information 5. Martin A. Abrahamsen.

A copy of each of these publications may be obtained
upon request while a supply is available from --

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